DOCUMENT RESUME

ED 448 873 PS 029 095

AUTHOR	Kershaw, Amy
TITLE	Making Space for Children: A Toolkit for Starting a Child Care Facilities Fund. Starting Points: Meeting the Needs of Our Youngest Children.
INSTITUTION	Carnegie Corp. of New York, NY.; Finance Project, Washington, DC.
PUB DATE	2000-10-00
NOTE	39p.; For related Starting Points documents, see PS 028 922 and PS 029 090-095.
AVAILABLE FROM	Rings Leighton Fulfillment, 1440 N Street NW, Suite A-1, Washington, DC 20005-2814. Tel: 202-319-2951; Fax: 202-319-2955; Web site. http://www.financeproject.org ($20. plus $6 shipping. Prepaid orders only).
PUB TYPE	Reports - Descriptive (141)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Change Strategies; *Day Care; *Early Childhood Education; *Finance Reform; *Financial Support; Fund Raising; Young Children
IDENTIFIERS	Day Care Quality

ABSTRACT

To address the growing demand for high-quality child care, many communities are seeking to develop specialized child care facilities funds to build new, and improve the quality of existing, child care programs. This toolkit is designed for policymakers, nonprofit leaders, child care providers, and others interested in increasing access to high-quality child care through the development of a child care facilities fund. The kit is organized around six sections. Following an introductory section, Section 2, "Why Start a Child Care Facilities Fund?" presents basic information about how child care facilities funds can help meet the growing demand for high-quality child care. Section 3, "Getting Started," describes some of the initial steps needed, including convening a committee of stakeholders, understanding the facility needs in the community, establishing goals and priorities, and identifying potential partners. Section 4, "Designing Your Facilities Fund: Structure, Funding, Products, and Services," lays out some of the design considerations for starting a child care facilities fund and includes a list of funding sources, information regarding fund administration, eligibility considerations, and what types of expenses should be funded. Section 5, "What Can You Do?" describes some options that stakeholders can use to support, promote, or lead efforts to start up, design, and operate a child care facilities fund, including specific suggestions and examples for government agencies, elected officials, banks, philanthropies, parents, providers, and others. Section 6 provides a list of publications and organizations that may be helpful in starting a facilities fund, including a brief description of facilities funds from around the country. A glossary of child care and facilities financing terms is included. (KB)

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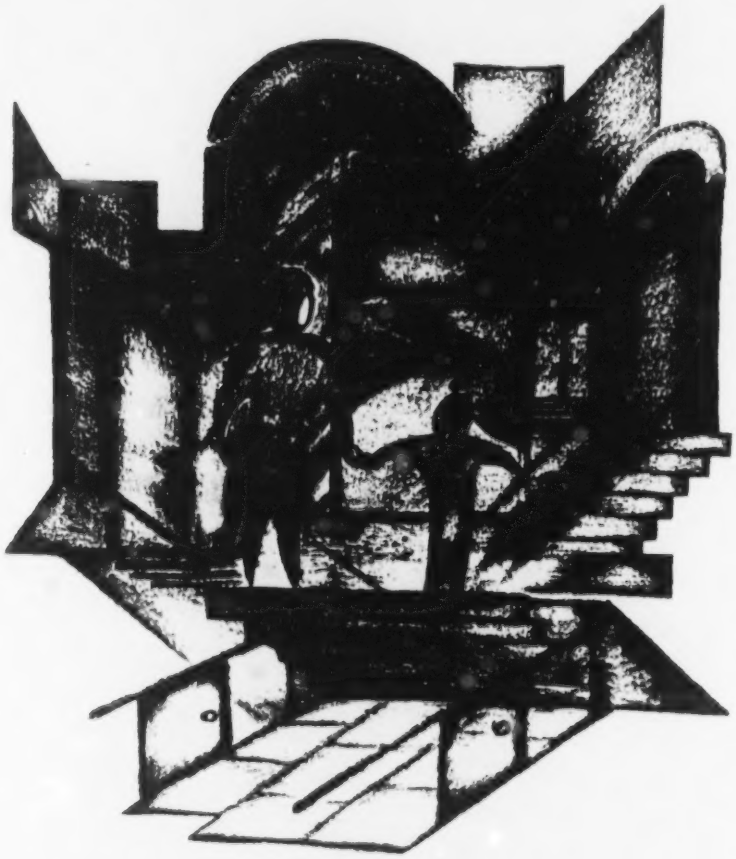
Making Space for Children: A Toolkit for Starting a Child Care Facilities Fund



Starting Points

Meeting the Needs of Our Youngest Children

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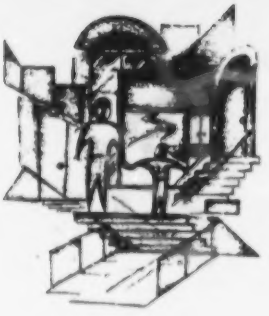


Making Space For Children:

A Toolkit for Starting a Child Care Facilities Fund

TABLE OF CONTENTS

I. Introduction

II. Why Start a Child Care Facilities Fund?

A. A growing demand for high-quality child care spaces

B. The unique challenges of child care facilities development

C. How a facilities fund works to address demands and challenges

Pullout: (1) Starting a facilities fund: Is this the right time for my community?

Pullout: (2) Glossary of child care and facilities financing terms

III. Getting Started

A. Forming a committee of stakeholders

B. Assessing community needs and resources

C. Establishing goals

D. Assessing community needs and resources: Suggested questions

IV. Designing Your Facilities Fund: Structure, Funding, Products, and Services

A. Structuring your fund

B. Capitalizing your fund

C. Designing your products and programs

Pullout: (1) Child care facility funding and marketing

Pullout: (2) Criteria for program participants and expenses

V. What Can You Do?

A. State and local government

B. Banks and commercial lenders

C. Corporations

D. Community lenders and developers

E. Philanthropists and foundations

F. Parents

G. Providers

H. Advocates and policy organizations

VI. Resources

A. Publications

B. National programs and organizations

C. Selected facilities funds

Introduction

Child Care Facilities: A Good Investment

Several national and state trends are raising awareness about the value of high-quality child care and putting new pressures on community child care systems. More parents with young children—including those transitioning off welfare—are entering the work force and need care for their children. Recent research has reinforced the importance and benefits of quality early childhood education, particularly to those children growing up in poverty, and has focused a spotlight on the critical and lasting impact on brain development of a child's experience in the first three years of life. Additionally, policymakers, parents, and educators are increasingly looking to the critical after-school hours to provide high-quality out-of-school time programming and services to promote learning, reduce juvenile crime, and help improve academic achievement for vast numbers of children.

Early childhood and school-age child care programs require a specialized type of space to promote children's healthy development and ensure their safety. The physical environment in a child care setting powerfully affects children, care-givers, and their interactions. A well-designed space is not only safe for children but supports their emotional well-being, stimulates their senses, and challenges their motor skills. By contrast, a poorly designed space can inhibit positive interactions between children and care-givers, interfere with curriculum, and cause great stress for teachers and children.

How Facilities Loan Funds Can Help

To address the growing demand for high-quality child care spaces, many communities are seeking to develop specialized child care facilities funds to build new, and improve the quality of existing, child care programs. Child care facilities funds are designed specifically to address the unique facilities challenges faced by child care providers and those interested in building the supply of high-quality child care programs.

For several reasons, the cost and process of building new space or adapting space for the particular needs of child care are prohibitive. First, few programs have the income to address all their operational needs—staff salaries, food, transportation—let alone address their capital needs. Secondly, these programs often lack access to traditional sources of debt capital

In 1994, the publication of *Starting Points: Meeting the Needs of Our Youngest Children* by Carnegie Corporation of New York heralded a "quiet crisis" for our nation's youngest children. Today, the crisis is no longer quite so quiet. The 11 states and cities that are part of the Starting Points State and Community Partnerships are part of a growing chorus focused on improving the lives of young children and their families. This toolkit is one of a set of products sharing the experiences of Starting Points sites, as well as other states and localities, to help the nation move towards a healthy, nurturing beginning for all its children.

that would enable investment in facilities. For example, a child care program may need a loan that is too small or too risky for a conventional lender, it may lack sufficient collateral, or it may not be able to pay commercial rates of interest. Finally, most child care programs are unfamiliar or uncomfortable with the use of debt and tend to rely instead almost exclusively on grant income to finance capital improvements. As a result, many child care programs—whether home- or center-based—operate in substandard or makeshift spaces and, even in times of great demand, cannot imagine undertaking a facilities project.

Facilities funds make loans and/or grants for facilities construction, renovation, or improvement that meet the specialized needs of the child care market. They are designed and capitalized to fill the gap between the loans that commercial lenders will make and those that child care providers can support. In addition, many funds also provide technical assistance to build the capacity of providers to undertake and manage facilities projects, to influence attitudes about debt and facilities investment, and to provide development and financial expertise to specific projects. Thus, child care facilities funds are a promising policy strategy to increase the quality and supply of child care by expanding and improving the facilities in which these services are provided.

Toolkit Contents

This toolkit is designed for policymakers, nonprofit leaders, foundation executives, business leaders, advocates, child care providers, and others interested in increasing access to high-quality child care for working families through the development of a child care facilities fund. It describes the benefits of developing a child care facilities fund and identifies some steps toward getting such an initiative underway. This toolkit also lays out some strategic issues and provides information about resources to consider in designing a child care facilities fund. Although this toolkit focuses on how to start a new child care facilities fund, it also includes strategies and ideas that may be helpful for communities that already have a facilities

fund in operation and those communities that need child care facilities but lack the resources to start a whole new program.

Additionally, while this toolkit is specifically designed to address the capital needs of child care programs, many community-based human service and cultural organizations face similar challenges in creating and maintaining spaces to support their programs. While child care programs have unique facility challenges, many of the concepts, steps, and strategies described here will also be applicable for assisting other community-based organizations with their capital needs.

THE TOOLKIT CONTAINS THE FOLLOWING SECTIONS:

Why Start a Child Care Facilities Fund? Child care facilities funds are designed specifically to address the unique facilities challenges faced by child care providers and those interested in building the supply of high quality child care programs. This section contains basic information about how child care facilities funds can help meet the growing demand for high-quality child care. This information should be useful to those considering developing a facilities fund as well as to potential partners of such an effort. It addresses such issues as the unique facility challenges faced by child care programs; why facilities matter to children, parents, teachers, and the community; and how facilities funds work to expand and improve child care spaces. This section also includes a glossary.

Getting Started. Once you have decided that a child care facilities fund is an appropriate strategy to meet the needs in your community, this section describes some of the initial steps you will need to take in order to get started. These include convening a committee of stakeholders, understanding the facility needs in your community, establishing your goals and priorities, and identifying potential partners.

Designing Your Facilities Fund. This section lays out some of the design considerations for starting a child care facilities fund. It includes a list of federal, state, and local funding sources that can be used to capitalize the fund and lays out the various types of products and services that have been most successful in helping child care programs meet their facilities needs. It also includes information to help you think through how a facilities fund should be administered, who should be eligible for funding, and what types of expenses should be funded.

What Can You Do? Successful child care facilities funds almost always involve partnerships among agencies and organizations in the public, private, and community sectors. This section describes some options that different stakeholders can use to support, promote, or lead efforts to start up, design, and operate a child care facilities fund. It includes specific suggestions and examples for government agencies, elected officials, banks, philanthropies, parents, child care providers, and others.

Resources. This section provides a list of publications and organizations that may be helpful as you consider starting a facilities fund and begin to design your programs. This section also includes a brief description of child care facilities funds from around the country, including contact information. This listing is provided to help you to learn from others who are working—and succeeding—in this field.

Acknowledgements

This toolkit was developed by Amy Kershaw, formerly of the San Francisco Mayor's Office of Children, Youth and Families and currently an independent consultant. The toolkit is a companion document to and draws from *A Guide to Facilities Loan Funds for Community-based Child and Family Services*, authored by Carl Sussman and published in 1999 by The Finance Project. Funding for the development of the toolkit was provided by Carnegie Corporation of New York through its Starting Points initiative.
The author and The Finance Project would like to thank the following individuals who assisted in the development of the toolkit: Carol Cohen of The Finance Project managed the project, and Janet Hostetler, formerly of The Finance Project staff, provided research assistance. Carl Sussman of Sussman and Associates, Amy Gillman of the Local Initiatives Support Corporation, September Jarrett of the Low Income Housing Fund, and John Monahan of the Annie E. Casey Foundation provided helpful reviews of a draft of the toolkit. September Jarrett, Louise Stoney of Stoney Associates, Stephanie Upp, formerly of the National Economic Development and Law Center, and Karen O'Mansky of North Carolina's Self-Help Community Facilities Fund also provided invaluable information and guidance in the development of this toolkit.

Why Start a Child Care Facilities Fund?

AS YOU BEGIN PLANNING EFFORTS TO DEVELOP a child care facilities fund, you will undoubtedly be called upon to *make the case* that a facilities fund is needed and is the appropriate strategy to meet the child care challenges in your community. This section is designed to help you do that by describing the growing demand for high-quality, affordable child care at the community level, the unique challenges facing child care programs that wish to make facilities investments, and how child care facility funds can work to address that growing demand and those challenges. Also included in this section is a glossary of child care and facilities development terms that you will encounter as you move through the planning and development stages of a child care facilities fund.

A Growing Demand for High-Quality Child Care Spaces

Policy developments at the state and local level are creating new demands for high-quality child care spaces.

- **More families are working:** Virtually all working parents require child care for their children, whether in the form of a structured, center-based program of informal, dependable care from friends, neighbors, or relatives. The work requirements and time limits on benefits that have been established through welfare reform are adding to the number of children in need of care. However, parents who are unable to find adequate care for their children are often forced to leave their children unsupervised or in low-quality care—or to stay home instead of entering the workforce or participating in training programs. Between 1977 and 1993, the number of children under age five in nonparental care arrangements more than doubled, from approximately 3 million to 8 million. By 1995, almost 10 million children were in nonparental care programs[1] and, since the enactment of welfare reform at the national level, this number has swelled. In addition, research shows that being able to find high-quality, reliable child care is critical to parents' job success because it allows them peace of mind, knowing their children are being well cared for while they work.[2]
- **Recognition of the benefits of a high-quality child care experience:** Today, most American families rely on child care providers to help raise their children, often beginning in the first weeks or months of life. Many young children begin and continue in child care during a critical stage of their brain development. During these preschool years, children experience the cognitive, social, and emotional growth that forms the basis of school readiness and success. Long-term studies show that good early care and education programs can have a positive, lasting effect on achievement and social adjustment, especially for children living in poverty. But quality is the key, and in most American communities—especially low-income communities—it is very hard to find and afford. High-quality programs ensure that children are safe and are offered in settings that facilitate healthy growth. Most physical settings where children receive care, however, fall short of these standards.[3]

- **The opportunity provided by the out-of-school hours:** The new standardized testing requirements and other school reform efforts are making it clear that the current education system does not meet the needs of many of its students. Large numbers of children are failing in the traditional classrooms of overcrowded and under-resourced schools. Whether the emphasis is on devoting more time each day to academics or on the educational and life benefits of addressing a child's overall development, positive use of out-of-school time is increasingly being seen as an important part of the solution. In addition, research shows that children and youth who engage in risky behavior—sex, drug and alcohol use, and criminal activity—often do so between 2:00 p.m. and 6:00 p.m.—after school ends and before parents return home from work. School-age child care and other out-of-school time programming can provide children with enriching activities that prevent risky and self-destructive behaviors and support overall youth development.

As a result of these policy trends, the demand for high-quality child care spaces—especially licensed, center-based settings—has increased dramatically. Yet the supply of child care has not kept pace: current physical space is simply too scarce, too unaffordable, or not of high enough quality. This shortage of appropriate, high-quality facilities translates into inadequate supply, limited choices for families and, in many cases, inferior care.[4]

Child Care Development is Also Job Development

New child care facilities result in the creation of jobs for program directors, teachers, aides, janitors, and cooks. Unlike most other industries, virtually all jobs supported by the total dollars spent for child care remain in the local community.

Jan Stokley, "The Child Care Challenge for Community Development Corporations," National Economic Development and Law Center, 1990.

The Unique Challenges of Child Care Facilities Development

Early childhood and school-age child care programs require a special type of space to promote children's healthy development and ensure their safety. The physical environment in a child care setting powerfully affects children, care-givers, and their interactions. Children's physical environment has a significant impact on the way they develop, behave, and interact. A well-designed space is not only safe for children; it also supports their emotional well-being, stimulates their senses, and challenges their motor skills. A well-designed child care environment can have an enormous positive impact on the well-being of children and teachers. By contrast, a poorly designed space can inhibit positive interaction between children and care-givers, interfere with curriculum, and cause great stress for teachers and children.

Many child care providers would consider making quality improvements to their programs or expanding to new sites to serve new children, but the cost of building or adapting space for the particular needs of child care are prohibitively expensive. Child care facilities challenges fall into three basic categories:

- **Limits of space occupied by providers:** More often than not, child care programs operate in rented or donated space that is not specifically designed for child care purposes (e.g., homes, church basements, school classrooms). In many cases, even if programs are allowed by the terms of their lease to make renovations, the inherent nature of a space may make it very difficult to rehabilitate adequately or without great expense.

- **Child care programs' inexperience with or inability to take on debt:** Most programs' primary focus is on programming. Program directors often lack management experience with taking on debt, facilities financing, and project management. Programs also often lack collateral, a credit history or both.

- **The nature of child care finance:** Child care programs are typically funded by a combination of parent fees, government subsidies (if they serve low-income children), community fundraising (usually from foundations), and in-kind contributions. Child care programs generally struggle to pay for program essentials and staff salaries, leaving few resources for even maintaining facilities let alone making capital improvements. In addition, the rent most programs are able to pay is insufficient to repay commercial construction loans, and providers may face legal, contractual, or regulatory prohibitions against using grant or contract income to make capital investments.

How a Facilities Fund Works to Address Demands and Challenges

Because so many child care programs find it difficult to plan for or carry debt, groups of public officials and private lenders are joining forces to find new ways to help child care programs meet their facilities needs. Child care facilities funds increase the supply of high-quality child care programs by making low- or no-cost financing available to child care programs wishing to expand or improve their facilities or start a new child care program. Facilities funds are designed to directly address some of the challenges faced by child care programs by creating a lender with the financial and institutional ability to make these loans. Facilities funds not only create access to debt capital but also—through technical assistance—help support child care programs take out and repay the loans. Facilities loan funds often also stimulate broader systemic changes that can improve operating income, increase the willingness of providers to assume debt, leverage new sources of capital and in other ways promote higher levels of capital investments in community child care programs.

- **How Are Facilities Funds Structured?** There are three basic types of child care loan funds: public programs, private programs, and public-private partnership programs. When starting a new child care facilities fund, the trend in the field seems to be to promote child care specialization but to do so through corporate or administrative structures that allow economies of scale.[5] For example, new funds—whether publicly or privately run—are often folded into existing agencies or organizations with expertise in community lending, community development, or child care in general. (Please see section on *Designing Your Products and Programs* for more information on structuring your facilities fund.)

- **How Are Facilities Funds Capitalized?** The initial capital for child care facilities funds comes from a variety of public and private sources. Some states and communities have used proceeds from bond issuances or have set aside a portion of existing

Capital Expenses

Capital expenses are fundamentally different from other program expenses. Unlike pencils, food for snacks, utility bills and staff salaries, capital expenditures are made infrequently and have a useful life that spans years or even decades. In the normal course of things, no enterprise would borrow money to pay for services and supplies that are used within weeks. But debt is the ideal method for making capital investments; a loan spreads the cost over the investment's useful life. In effect, with each year's monthly loan payments, the borrower is only paying for that portion of the investment being used to deliver that year's services.

Carl Sussman, "Building for the Future: A Guide to Facilities Loan Funds for Community-based Child and Family Services," The Finance Project, December 1999.

child care or community development revenues. Private funding—from the corporate or philanthropic community—is also an important source of capital for a new facilities fund. Many facilities funds rely on pools of public and private funding to maximize their flexibility and ability to meet the comprehensive facilities needs of child care programs. (Please see section on *Designing Your Products and Programs* for more information on potential sources of capital.)

- **What Do Facilities Funds Do?** Child care facilities funds help make financing available, through a variety of products and services, so eligible child care programs can meet a broad range of one-time capital expenses. These may include purchasing and/or renovating a building to make quality improvements, to meet safety or licensing requirements, or to expand to serve more children.

Products and services range from offering predevelopment and planning grants, to guaranteeing or making direct loans. Many funds also offer technical assistance to child care programs undertaking capital improvements, such as helping programs with facilities and business planning, project management, or debt management. (Please see section on *Designing Your Products and Programs* for more information on the services offered by facilities funds.)

1 *The Economics of Child Care. A Report by the Council of Economic Advisors*, December 1997.

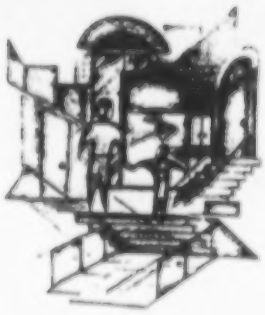
2 James T. Bond, Ellen Galinsky, and Jennifer E. Swanberg, *The 1997 National Study of the Changing Workforce*. Families and Work Institute, 1998.

3 Annie E. Casey Foundation. *Child Care You Can Count On. Model Programs and Policies*. Quality Concept paper, companion resource to the 1998 Kids Count Data Book, 1998.

4 The Community Investment Collaborative for Kids (CICK), a program of the Local Initiatives Support Corporation, program brochure.

5 Ibid, p. 20.

Getting Started



ONCE YOU HAVE DECIDED THAT A CHILD CARE facilities fund is needed in your community, you will want to begin your effort with careful planning. Some first steps are:

- Forming and working with an advisory committee of knowledgeable stakeholders;
- Assessing and analyzing child care needs and resources; and
- Establishing goals for your facilities fund effort.

This section provides some ideas for whom to include on an advisory committee, some questions to be asked in assessing community needs and resources, and some examples of the type of goals a facilities fund would aim to achieve. Before convening a large task force of important community members and undertaking a large-scale research project, you may need to do some initial research on the feasibility of starting a facilities fund, current child care data sources, and community needs. Many states or communities may already have an existing committee that can serve in an advisory capacity or may have conducted a thorough needs assessment of the child care situation in your community. The information given below, however, is intended to provide a guide to taking the first steps in planning for your child care facilities fund initiative.

Forming a Committee of Stakeholders

A natural first step in creating a child care facilities fund—or beginning any new child care initiative—is to organize, consult with, and get "buy-in" from the local experts and stakeholders. A new child care facilities fund will be most effective when it can draw from a broad range of perspectives, resources, and expertise. It will also have a greater chance of succeeding if it has the support and backing of a diverse group of public, private, and community leaders. An advisory committee with broad representation will help do several things:

- Establish goals and priorities that are consistent with community needs;
- Develop and assess options; and
- Build public and private sector support for your efforts.

Listed below are some general suggestions for state and community child care stakeholders to consider including on your committee. You will also want to think about who is doing this or similar work in your community and whom you would like to partner with in this work. Think broadly: inviting people to the table can be an effective tool for getting them involved.

- **Child care providers,** including home- and center-based providers, school-age and early childhood providers, providers who care for children with special needs, Head Start program or administrative staff, and representatives from the school system (if they are providers of child care services) will be the ultimate clients for a facilities fund. Having their perspective at the table from the beginning will be crucial to getting your effort started on the right foot.

- **Parents** are the ultimate consumers of child care and have a vital stake in any effort to improve or expand child care programs and services. Effective child care strategies incorporate ongoing parent input, participation, and leadership. Parent involvement ensures that new programs are responsive to consumer needs and are designed to directly address gaps in the current system. In addition, parents can play many important roles, including communicating an initiative's goal to other audiences, bringing new stakeholders to the table, and evaluating an initiative's success.

- **Child care resource and referral agencies,** which are the agencies responsible for connecting parents with child care programs and information, are closely tied to families and to providers. Not only do these organizations understand the needs of families and providers but, because of their broad reach, they can be helpful in conducting needs assessment and instrumental in doing outreach and lobbying for your programs.

- **Public sector representatives,** including elected officials (or their staff), state, county, and municipal government agency staff responsible for child care or community development (e.g., Department of Social Services/Human Services, Office of Children or Child Care, Recreation and Parks Department, Office of Community Development, Office of Housing), can help navigate regulatory requirements and access public monies. You may also want to include representatives from the public agencies who have some responsibility for regulating child care spaces, such as the state or regional child care licensing office or the local fire department.

- **Child care advocates** can be instrumental in lobbying for changes or additions to state or local laws, policies, or budgets that can enable the creation of a facilities fund. By involving advocates in the beginning of your planning process, you can ensure that your facilities strategy is tied into the larger state or local children, youth, and family advocacy agenda.

- **Corporations, banks, or foundations** that are currently working on or funding child care or community development issues can be very helpful in developing and assessing a new child care facilities strategy. These partners can also be particularly helpful in your fundraising efforts.

Building Strategic Partners

Not everyone who will be helpful in planning, establishing, and operating your facilities fund belongs on your advisory committee or task force (or will want to sit through all the advisory committee meetings). You may wish to build strategic alliances or targeted partnerships with:

- housing or other community developers working in your target communities;
- construction companies working in your target communities;
- law firms that can perform pro bono work for your facilities fund or for child care programs;
- philanthropic leaders with an interest in child care;
- commercial lenders that can assist with technical assistance to a new lender; and
- business leaders interested in developing child care resources for their employees or improving their corporate image in the community.

When approaching potential partners, be clear about what you want from them and make it easy and logical for them to work with you. For example, ask a law firm for assistance with legal needs, ask a technology firm for help designing a Web page, or ask a construction company to donate excess materials to a child care facilities project.

Cultivating Champions

Successful child care initiatives—including the development of a child care facilities fund—involve powerful champions from the public, private, and community sectors. Success requires leaders who act as change agents by clearly communicating the goals of the partnership and building a broad base of support. Champions can bring visibility and attention to your initiative by obtaining media attention through public service announcements, press conferences, letters to the editors, and opinion pieces. Effective champions can be leaders from a diverse range of fields, including:

- business;
- law enforcement;
- health;
- education;
- religious communities;
- philanthropy; and
- government.

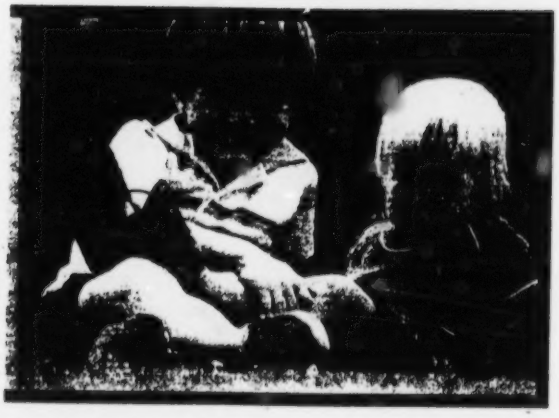
Parents are also effective champions when they mobilize and speak with a unified voice. In approaching leaders to involve them as champions in your work, target likely allies. Good places to start are with leaders who have recently become parents or grandparents, leaders of businesses who market to families (e.g., toys, baby food, diapers), and leaders who have been outspoken on other issues important to children and families. Be prepared when meeting with potential champions to make the case for why a facilities fund initiative is important for your community and why it makes sense for them to take a leadership role in this effort. Please see section on *Why Start a Child Care Facilities Fund* for more information on making the case for a facilities initiative.

- **Community lenders and developers,** such as community development financial institutions (CDFIs), community development corporations (CDCs), or nonprofit housing developers, can be very knowledgeable about community needs and the capacity of the nonprofit sector and may already offer some of the services or products that your facilities fund program will want to offer.
- **Labor unions** are often involved in efforts to increase access to quality child care for their members. Unions are also concerned with promoting state and community economic vitality, and they consider community resources such as child care essential to their members' ability to work. Labor unions can be very effective partners in organizing and advocating for a new child care facilities fund.

Once you have your committee formed, make sure your members are clear about the purpose and the goals of the task force—they are here to oversee the development of a new child care facilities fund. You will need to let them know if you expect them to be involved in all aspects of planning, developing, and operating your facilities fund. For example, will they primarily be responsible for policy and program review, or will they be expected to actually review loans and grants once the program is up and running? The committee will also need a clear timeline for their tasks and sufficient staff support to accomplish their goals.

Assessing Community Needs and Resources

Before developing a new child care facilities initiative, it will be helpful to have an understanding of the current capacity, needs, and resources in the child care community. Conducting a formal or an informal needs assessment is a critical first step to establishing a baseline of information about the current and future needs of children who will be served; the preferences and incomes of parents; the available child care resources, both for program operating costs and capital projects; and the existing supply and condition of child care facilities in your community. The informa-



tion obtained through a needs assessment process will be key to establishing relevant goal, and effectively designing your products and services to meet demonstrated community needs.

Specifically, it will be helpful to gather information in the following areas (please see the pullout on *Assessing Community Needs and Resources* in this section for further information and suggested needs assessment questions):

- **The Current Supply of and Demand for Child Care.** Understanding the current child care capacity and needs in your community will help to determine where the need for both quality improvement and new facilities is the greatest. This type of information will be helpful in designing your strategies to maximize benefits for families and make best use of limited resources. Information about the number of licensed providers (both home- and center-based), their location, and their operating capacity can be obtained from the local or regional office of the state child care licensing authority. It is also important to understand the population of different age groups of children—infants, toddlers, preschoolers, school-agers—in your target community. Services and facilities for each of these age groups can differ substantially. The existing services may support one group better than another. The differences in age-group mix will drastically affect staffing patterns, operating costs, and space needs.

  Child care resource and referral agencies are good sources of information about waiting lists for subsidized child care, and they often also track demand by the type of service needed (e.g., infant care, school-age care, care for children, with special needs). Child care providers can also provide some information about the state of their current facilities and the potential cost of making improvements or expanding services. Local housing and community developers may be good sources of information about current costs for building and renovations. You may also wish to gather information about parents' ability to pay for new services—this will be important in planning the finances for new or expanded programs.

- **Current Child Care Resources.** Before developing new resources in your community, you will want to collect some information about sources of funding for the current child care system. This includes the public and private funding sources available both for operating child care programs and for making capital improvements. Much of this information can be gathered directly from child care providers. You may also want to contact the public agencies responsible for funding child care in your state or community (if they are not already members of your advisory board).

Sources For Child Care Data

- **U.S. Census Bureau (www.census.gov);**
- **local or regional child care licensing offices;**
- **child care resource and referral agencies;**
- **city, county or state offices of human services, child care, or community development;**
- **parent surveys; and**
- **provider surveys.**

Please see enclosed pullout on suggested questions for child care needs assessments.

Establishing Goals

Once you have a good understanding of the child care community needs and resources, your committee will need to consider establishing goals for your child care facilities fund. Program goals describe the purpose of your child care facilities fund (e.g., make low-cost financing available to child care programs or stimulate new child care facilities development). Program goals can be very specific (e.g., build six new child care centers for low-income children) or very broad (e.g., increase the supply of high-quality child care). Having clearly defined and compelling goals is critical to engaging and maintaining partners, building public support, and securing funding for your effort.

Examples of program goals from existing child facilities funds include:

- expand the supply of child care (e.g., build a specific number of new centers or slots);
- finance program improvements (e.g., to meet or maintain safety and health standards, to become accredited, or to make quality enhancements);
- make low- or no-cost financing available to child care programs;
- stimulate new child care development;
- increase the economic self-sufficiency of child care providers; and
- build public awareness of local child care needs.

Most facilities funds have several related goals and design their products and services—given availability of resources—to address the multiple needs in the community and the complex challenges of child care lending. In addition, because resources are limited, most facility funds establish a set of funding priorities. For example, funding might be available on a first-come, first-serve basis; may be primarily focused in one neighborhood or community; or may be targeted to expanding certain types of care (e.g., care for infants, school-aged children or children with special needs). For additional information about program priorities, please see pullout on who should be eligible for funding in the *Designing Your Facilities Fund* section.

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1 Jan Stokely, *The Challenge of Child Care for Community Development Corporations*, a special publication for the National Economic Development and Law Center (NEDLC), 1990, p. 18.

Starting a Child Care Facilities Fund: Keys to Success

- Form an advisory committee of stakeholders—clearly define their roles and involve them at all levels.
- Continually assess community needs and resources.
- Cultivate high-level champions.
- Make it easy and logical for partners to participate.
- Research and build on successful facilities fund models.
- Design your programs to respond to identified community needs.
- Coordinate and maximize public and private resources.
- Connect your work to broader child care system-building efforts.
- Publicly promote your efforts—especially successes.
- Evaluate what you are doing.
- Continue to design, innovate, respond, and identify new partners.

Assessing Community Needs and Resources:

Suggested Questions

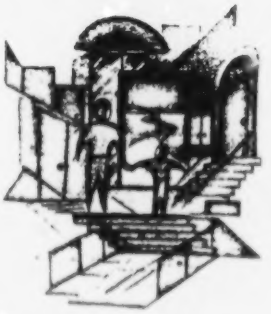
THE FOLLOWING ARE SUGGESTED TOPICS AND questions to help you determine community needs and resources. Before undertaking a major research project to answer these questions, start with existing information and resources. Much of this information may be readily available or can be collected from existing sources.

The Current Supply of and Demand for Child Care

- How many providers are in this community? Center-based? Family Child Care? What is their licensed capacity?
- How many providers serve low-income children?
- What hours do centers currently provide care (e.g. weekends, evenings)?
- What are the capacities per age group (e.g. infant, toddler, preschool, school-age)?
- What are the vacancy rates and lengths of waiting lists? What is the demand for new services?
- Is the care located near families' homes? Parents' workplaces? Children's schools? Other?
- What is the current cost of care?
- Do current child care arrangements meet families' needs? Preferences?
- Are services available for children with disabilities?
- What type(s) of care has (have) the highest demand?
- What are the locations of the existing providers?
- Do some neighborhoods have disproportionately high demand?
- Do providers operate in owned, rented, or donated space?
- What is the current state of child care facilities? What is the nature of current facilities needs (e.g., supply, quality)?
- What other needs do child care programs have (e.g. business, fundraising, computers, etc.)?

Current Child Care Resources

- What are the operating costs for home-based and center-based providers?
- What are the typical expenses a provider must pay?
- How much income is received? From what sources (public, private, parent fees)?
- How do child care programs currently pay the costs to maintain, improve, or expand facilities?
- What sources of public and private funding are currently available for operating child care programs?
- What sources of public and private funding are currently available for capital improvements?



Designing Your Facilities Fund:
Structure, Funding, Products, and Services

STRUCTURING YOUR FACILITIES FUND, identifying potential sources of capital, and deciding what type of products and services will be offered are critical steps toward getting your fund up and running. This section will help you think through these important design decisions by:

- Describing the various options for structuring your facilities fund;
- Providing a list of public and private funding sources that can be used for child care facilities development; and
- Laying out the various types of products and services that have been most successful in helping child care programs meet their facilities needs.

This section also includes a pullout to help you determine what types of capital expenses should be funded and who will be eligible to receive assistance through your facilities fund. Some of these decisions will be heavily influenced by what you have learned about the current supply of and demand for child care and the current resources in your community. Some of these decisions may also have been made already by your advisory committee.

Researching Successful Models

A good place to start in thinking through how to design your facilities fund is with a review of successful strategies being pursued in similar communities or states. In this guide, the Resources section has a list of child care facility funds operating at the state and local level throughout the country. A broad number of approaches are presented, with contact names and numbers. This section also includes a list of relevant publications that may be helpful to you in setting your goals, choosing your strategies, and designing your programs.

Structuring Your Fund

Choosing an administrator for your fund and developing a governing structure will depend on many variables. Leaders of successful facilities funds recognize the importance of specialized attention to the unique needs of child care programs while also building on the existing resources in a specific community. No perfect formula exists. The goal is to meet the market challenge posed by child care lending through a public or private entity that can use economies of scale, managerial systems, diversification, and lending expertise to ease startup, minimize costs, and manage risk.[1]

There are generally three types of child care facility funds operating around the country.

- **Public Programs.** These funds are capitalized with public funding and administered through existing public agencies such as offices of child care, health and human services, or community development. Examples of publicly run programs include the Arkansas Child Care Facilities Loan Fund and the Day Care Financing Programs administered by the Maryland Department of Business and Economic Development.
- **Private Programs.** These funds are generally capitalized from a variety of public and private sources but are administered by a nonprofit fiscal

intermediary or community development financial institution (CDFI). Examples of privately run programs are the Child Care Development Project administered by Coastal Enterprises, a statewide community development corporation (CDC) in Maine; the North Carolina Community Facilities Fund administered by Self-Help, a community development credit union and loan fund in North Carolina; and The Child Care Capital Investment Fund in Massachusetts.

- **Public-Private Programs.** These funds are usually new entities formed through a partnership with the public and private sectors. By their nature, funding comes from both sectors. The Illinois Facilities Fund (IFF) and the Child Care Facilities Fund of the Low-Income Housing Fund in San Francisco are examples of public-private partnerships.

When starting a new child care facilities fund, the trend seems to be to promote child care specialization but to do so through corporate or administrative structures that allow economies of scale. For example, new public programs are generally folded into existing agencies with expertise in child care or community development. Similarly, existing nonprofit community lenders and developers have increasingly become involved in child care facilities development by raising revenue specifically targeted to child care facilities, creating child care lending products, or hiring dedicated staff to work on child care issues.[2]

Capitalizing Your Fund

Because the market for child care loans is weak, it is extremely difficult to address the credit needs of child care organizations without creating both a dedicated source of capital and specialized staff.[4] The challenge is to create accessible and flexible funding and then—through technical assistance—help child care providers access those funds. While some facilities fund programs operate with a single funding source, most have found that pooling funding from a variety of sources offers the most flexibility in meeting the comprehensive facilities financing needs of child care programs.

Listed below are examples of public and private funding sources at the federal, state, and local level that can and have been used to capitalize child care facilities funds. There are an array of funding sources to consider. Some of these funding sources are more appropriate during the startup phase of a facilities fund, and some can be used only in relation to a specific facilities project or child care setting. Deciding

Highlighting the Role of Intermediaries[3]

Experience suggests that those wishing to strengthen child care programs by making debt capital available would be well advised to do so in partnership with an existing community development lender and to build in industry-specific expertise rather than launch a lending program from scratch. Such an intermediary can develop a specialization in the physical and locational needs of child care programs and their users. It can customize loan programs and deliver technical assistance that meets the unique needs of these organizations. As an established lender it has systems in place to originate and service loans. It has credibility with investors to leverage the capital needed to launch the lending program. An intermediary organization can also attempt to create public-private partnerships that mobilize resources and undertake activities that the public sector cannot.

Community loan funds, community development corporations, and community development credit unions (also known as community development financial institutions, or CDFIs) are all examples of organizations that act as fiscal intermediaries. These city-wide, regional, and statewide organizations were established to help generate new sources of capital to support housing redevelopment and economic development in low-income communities and have become increasingly involved in child care lending and grant-making.

which of these funding sources is appropriate for your program will depend on many factors, including the goals and priorities for your fund, the types of borrowers who will be eligible to receive funding, the types of capital expenses you wish to fund, how your fund is structured or administered, and what is politically feasible. In addition, as you develop a short- and long-term fundraising plan, you will need to keep in mind the funding necessary to manage, staff, and operate your new facilities fund and its programs.

Public Sources

FEDERAL FUNDING

Child Care Development Fund (CCDF): CCDF is the major federal funding source dedicated to providing child care subsidies to low-income families. Some states have appropriated a portion of this funding to build or renovate child care facilities. For example, CCDF is one source of funding for the Child Care Lending Initiative run by the Center for Community Self-Help in North Carolina. In addition, the Child Care Works program in Washington, D.C. uses CCDF funding to guarantee bank funding for its micro-loans to child care centers and family child care providers. CCDF funding for child care facilities development, however, comes with important restrictions (e.g., it cannot be used for major renovation or construction or to increase square footage).

Community Development Financial Institution (CDFI) Funding: The passage of the Community Development Banking and Financial Institutions Act in 1994 created a source of federal funding to capitalize community development financial institutions. Some of these federal funds can be accessed for child care loan programs that are administered by or operated in partnership with a qualifying community development lender or community development financial institution (CDFI).

U.S. Housing and Urban Development (HUD) Section 108 Housing and Community Development Loan Fund: Section 108 of the Housing and Community Development Act of 1974 authorizes HUD to issue loan guarantees backed by future Community Development Block Grants (CDBG) receipts and other collateral. With this security, HUD goes to capital markets to raise capital. Because the federal government is the borrower and the repayment is secured, HUD achieves favorable terms on the funds it borrows on behalf of CDBG-eligible jurisdictions. Although Section 108 Loan Funds have traditionally been used for developing housing, some eligible municipalities are now looking to this loan source to help fund development of child care facilities. For example, San Francisco, working with the San Francisco Child Care Facilities Fund, earmarked $10 million of the previously approved Section 108 borrowing authority for loans to child care programs. In this case, the city not only guarantees the loans on behalf of the child care programs but also uses general fund dollars to subsidize the child care program's monthly debt service.

STATE AND LOCAL FUNDING

Bonds: Many states and communities use a portion of the proceeds from the sale of bonds to help finance child care facility construction.

- **General Obligation Bonds:** General obligation bonds are repaid from the tax base of a governmental body. In other words, a governmental entity sells the bonds, uses the proceeds to support one-time capital costs, and then allocates a portion of its annual revenues to pay toward the debt each year. Minnesota has used proceeds from its general obligation bonds to help pay for Head Start and other early childhood learning facilities.[3]
- **Revenue Bonds:** Unlike a general obligation bond, revenue bonds function more like a loan, and the project that is funded through the sale of these bonds must repay the debt. Illinois, through the Illinois Facilities Fund, is using this financing strategy to build new child care facilities. In this case, the state has assumed responsibility for paying a portion of the debt service, which has made this an affordable strategy for child care programs.

Developer or Linkage Fees: Some states and communities have created dedicated sources of revenue

for community capital investments by assessing a fee on new commercial development and then allocating the revenue from these fees to specific capital projects. In San Francisco, the Child Care Capital Fund assesses developers one dollar per square foot of new office or hotel space. These funds are then earmarked for use in making loans and grants to child care programs making capital improvements through the San Francisco Child Care Facilities Fund.

General Funds: Many states and communities appropriate general funds for grants or loans to child care programs for facility development. These funds are often used as startup or matching funds for private funding. A general fund commitment can be very helpful in capitalizing your fund and also in initiating private interest. The Illinois Facilities Fund and several of the New York-based child care facility programs benefit from state or municipal general fund contributions.

PRIVATE FUNDING

Community Reinvestment Act (CRA) Credits: Under recent revisions to the Community Reinvestment Act (CRA), loans, investments, and services that support child care facilities are qualified community development activities. Some banks meet their CRA requirements by making direct grants to child care programs or facility funds, offering technical assistance, making low-interest loans, and/or developing a child care lending program. Working with a bank that is trying to satisfy its CRA requirement provides an opportunity to receive direct capital or to partner with a commercial lending institution to make your dollars go farther. Providian Bank has been a leader in child care facilities development in both New Hampshire and San Francisco.

Foundation Funding: Philanthropic funders have become increasingly sophisticated about child care capital needs, and many are making this type of funding available directly to child care programs. Foundations are also major partners in many of the child care facility funds operating throughout the country. For example, the Dewitt Wallace-Reader's Digest Fund (now the Wallace-Reader's Digest Funds) and the David and Lucile Packard Foundation in Northern California have both been leaders in child care facilities financing.

Program-Related Investments (PRIs): PRIs are zero- or low-interest investments or loans that are used as capital and reloaned to community-based enterprises such as child care programs. The North Carolina Community Facilities Fund has used program-related investments from the Ford Foundation to capitalize their child care lending program.

Designing Your Products and Programs

Facilities financing is very complex and must be tailored to the unique strengths and needs of a particular child care program and the financial resources available in a specific community or state. Financing the cost of building or renovating a child care facility typically requires a number of different strategies, which may be used independently or in coordination. For example, large construction projects generally rely on a "package" of different grants and loans. Putting this package together requires strong business acumen and skill in negotiating financial markets.[6]

Most facilities funds offer a combination of grants, loans, and technical assistance to meet the capital needs of child care projects and to help programs access funding from other sources. Following is a list of products and strategies you may want to consider offering. The goals and priorities that have been established by your advisory committee will influence who should be funded and for what activities. The funding streams you are able to obtain will also determine what you are able to offer, because of the terms on which they are provided, including any requirements or restrictions on the use of the funds.

GRANTS

Planning grants or zero-interest mini-loans may be used toward predevelopment costs of specific facilities projects. Funds can be used for planning activities connected to the acquisition, rehabilitation, and construction of facilities, including architectural

drawings, site plans, legal costs, engineering costs, market or feasibility studies, real estate options, zoning and permitting fees, and other "soft" costs.

Capital Grants are an important component of a facilities fund strategy. They can be used to provide gap financing for a loan or to fund projects that are too small to warrant a loan. Capital grants can also be made in the form of forgivable loans or recoverable grants. These are loans that are "forgiven" or grants that are "recovered" contingent on a certain set of requirements. For example, a child care program could be given a loan to put in an accessible bathroom, and the loan could be forgiven once it had served children with disabilities for a 5-year period. Similarly, a child care program could receive a grant to buy a new outdoor play structure but be required to pay the grant back if it does not stay in business for a 3-year period. Offering this type of assistance is clearly dependent on having capital available for grant-making.

LOANS

Direct Loans may be used to fund entire projects or as gap financing for other loans or grants secured directly by a child care program. Most facility funds offer these loans at low interest rates and with other favorable terms. If you decide to offer direct loans, you will need to work closely with your advisory committee and other financing experts to determine interest rate, loan terms (short or long), loan size, and loan structure:

- **Interest rate:** Lenders who are working with nonprofit and community-based programs generally must offer favorable loan terms (e.g., below market interest rates) in order for loans to be accessible to borrowers with relatively few financial resources.
- **Loan terms:** Although lenders should not extend the term of a loan beyond the useful life of the asset it finances, extending loans as far as possible has a more profound impact on loan affordability —monthly payments—than modest reductions in interest rates. Extending the payment period of a loan, however, will result in increasing the overall cost of financing a loan.
- **Loan Size:** Most lenders limit the size of individual loans to avoid concentrating too much capital in a single project or borrower. Loan size policies also generally limit loan size to below the total value of the asset being financed. Both of these techniques are designed to minimize the loan risk and mitigate the impact to a lender if a project fails.
- **Loan Structure:** A lender can manipulate a number of other variables to alter the shape of a loan product besides rate, term, and amount. For example, a lender can charge only interest for some period (i.e., during a new program's startup phase) before requiring a lender to pay both principal and interest (once a stable number of children have been enrolled), or the lender may not require a prepayment penalty. This type of flexibility in loan structure can create a product with more risk to the lender but that meets the borrower's payment needs.

Providing direct loans also requires having funding and staff expertise to originate and service loans.

PAYMENT ASSISTANCE

Debt Service Subsidies and Repayment: As many funds that have tried to make loans in this field have found, making debt capital available—even with favorable interest rates and other terms—is often not enough. For most child care programs, the cost of building or adapting space for the particular needs of child care are prohibitively expensive, and often such projects are not feasible unless both initial capital and ongoing debt service is subsidized.

STRATEGIES TO ENCOURAGE OR SUPPORT PRIVATE LENDING

Commercial lenders often do not offer loans for child care projects because they find it too risky or otherwise unaffordable. If they are willing to make loans, the terms offered (interest rate, length of time for repayment, etc.) often make these loans unattractive or infeasible for potential borrowers who have trouble meeting equity standards. The following techniques are strate-

gies that facilities loan funds can take to reduce the risk to conventional lenders and induce them to make commercial loans available on more favorable terms.

- **Linked Deposits:** Linked deposits involve depositing funds into a conventional lending institution for the purpose of encouraging the bank to loan funds at a reduced rate to specific borrowers. This strategy can be used to lower the cost of short-term construction loans made to nonprofit entities, including child care programs.
- **Loan Guarantees:** Loan guarantees reduce the risk for commercial lenders by guaranteeing up to a certain percentage of the commercial loan. For example, Maryland's Guarantee Fund guarantees up to 80 percent of the loan amount made by a commercial bank.
- **Interest Rate Write-Down:** An interest rate write-down acts as a subsidy to make commercial loans available at below market interest rates. For example, an interest rate write-down might reduce an interest rate from 6.69 to 3.5 percent, which would make the loan more affordable to a child care program.
- **Collateralizing Certificate of Deposit:** purchasing a certificate of deposit in a participating lender, which is offered as security or collateral for a loan.

TECHNICAL ASSISTANCE

The development and provision of timely, focused, and customized technical assistance is key to the success of any child care facilities fund. Child care providers typically have minimal, if any, training in the business of operating child care programs and lack an in-depth understanding of market demand, financing, business plan development, or cash flow analysis. These critical skills are necessary in assessing the feasibility of facilities development and seeking funding.

As you design your child care facilities fund, you will want to consider incorporating strategies for technical assistance in the following areas:

- **Facilities planning and development:** Compliance with the Americans with Disabilities Act (ADA), architectural services, facilities planning and development, lease/purchase planning and negotiating, and site selection.
- **Business planning:** Understanding and accessing subsidies, budgeting, business plan development, cash flow analysis, fundraising, and marketing.

You may choose to provide technical assistance directly or through partnerships or referrals to others in the community who know about licensing, child care space requirements, architectural requirements, facilities planning, programming, or child care-friendly construction companies. See the Resources section for other child care facilities funds that offer technical assistance and for publications that can be used to help providers who wish to start a new child care business.

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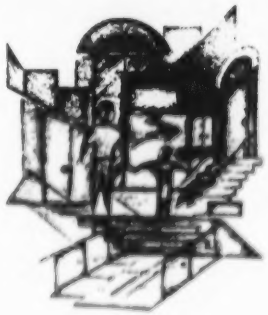
1. Carl Sussman, *Building for the Future: A Guide to Facilities Loan Funds for Community-based Child and Family Services*, The Finance Project, December 1999, p. 22.
2. *Ibid*, p. 20.
3. *Ibid*, p. 38.
4. *Ibid*, p. 18.
5. Louise Stoney, and Ann Mitchell, *Financing Child Care in the United States: An Illustrative Catalogue of Current Strategies*, The Ewing Marion Kauffman Foundation and the Pew Charitable Trusts, 1997, p. 97.
6. Ibid, p. 98.
7. This section adapted from Carl Sussman, *Building for the Future: A Guide to Facilities Loan Funds for Community-based Child and Family Services*, The Finance Project, December 1999, pp. 26-30.

Child Care Facilities Development Alone is Not Enough

Meeting the needs of low-income families and child care providers demands a comprehensive set of strategies, of which facilities development is only one. If you are embarking on a major child care facilities strategy to stimulate new development in your community, keep in mind that facilities will need staff, high-quality programs, and operating funds in the form of parent fees, government subsidies, or both. Many national, state, and community groups are working on the broad range of child care issues to improve access to high-quality child care for working families. Connecting your efforts to those already underway can be an effective strategy for building support and ensuring that your new program is responsive to community needs.



Criteria for Program Participants and Expenses:

What Should Be Funded?

A WELL-DESIGNED CHILD CARE ENVIRONMENT can have an enormous positive impact on the well-being of children and teachers. By contrast, a poorly designed space can inhibit positive interactions between children and care-givers, interfere with curriculum, and cause great stress for teachers and children. It follows that a child care facilities fund should pay for the things a program needs to create a child-friendly, well-designed space that supports healthy development and a positive interaction between teacher and child. In general, child care facilities funds make financing available—through a variety of products—for child care programs to meet a broad range of one-time capital expenses, including:

- purchase of a building;
- predevelopment costs related to the planning of a project (e.g., architectural drawings, site plans, legal costs, engineering costs, market studies, real estate options, zoning and permit fees, and other soft costs);
- renovations or equipment needed to maintain licensed capacity or to meet health and safety standards;
- renovations to expand space and capacity;
- equipment to enhance the quality of services provided, including vans, outdoor play structures, or computer systems;
- security deposits for rented property; and
- emergency repairs required for health and safety, or equipment purchases to enable a program to reopen after a disaster (e.g., flood, leaking roof).

Your community needs assessment and your advisory committee can help determine which types of capital expenses will and should be priorities for funding through your facilities fund. The type of funding you have secured may also limit or dictate which of these expenses can be funded. For example, some funding streams may only be used for renovations, for creating new slots, or for purchasing equipment. Again, pooling funding from a variety of sources will allow you the maximum flexibility in responding to the different types of capital needs that child care programs have.

Criteria for Program Participants and Expenses:
Who Should Be Eligible?

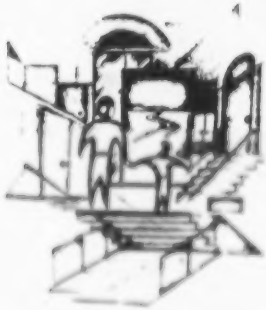
CHILD CARE IS PROVIDED IN A VARIETY OF settings. Parents can choose a home- or center-based setting. They may also choose from secular or non-secular, profit or nonprofit, licensed or unlicensed programs. They may enroll their child in Head Start or in a school-based after-school or early childhood program (which may be run by the school or by a community-based child care provider). Some child care programs may also be part of a larger multiservice organization or family resource center, or may be located in a housing development, business, or other community facility. Many of these programs—whether home- or center-based—are likely to be operating in rented or donated space, and most could probably benefit from access to low- or no-cost facilities financing to expand or improve their program.

Ideally, you would be able to offer assistance to all programs with capital needs, but resources undoubtedly will be limited. You will need to closely tailor eligibility decisions to your community and program goals and priorities. For example, eligibility can depend on or be limited to:

- a geographic location (e.g., child care programs in a high-need neighborhood);
- program users (e.g., low-income children, children of welfare-to-work clients, infants, school-aged children);
- a certain child care setting (e.g., Head Start, school-based programs, family child care homes);
- certain auspices (e.g., nonprofit or for-profit, licensed or license-exempt); and/or
- purpose of the funding requested (e.g., creating new slots or making quality improvements).

If possible, it is preferable to establish broad eligibility criteria but tightly tailor your funding priorities to the specific needs in your community. For example, while all nonprofit child care centers could be eligible for a loan or grant, priority for funding could be based on the creation of new slots or making quality improvements. Keep in mind that you may wish to preserve the option of changing eligibility criteria or funding priorities to respond to new community needs or a new funding source.

Child Care Facility Funding and Marketing



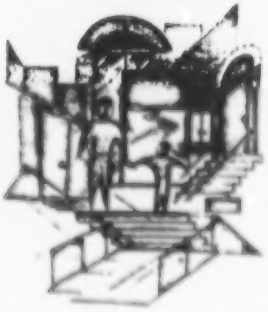
Potential Sources of Child Care Facility Funding

Other Potential Sources of Child Care Facility Funding include state or local small-business loan funds, the U.S. Small Business Administration's Micro-Loan Program, and the U.S. Department of Agriculture Rural Economic Development Fund. In addition, the federal Community Development Block Grant (CDBG) provides qualifying urban communities the funds to make grants for capital improvements to community organizations—usually within a federally designated enterprise community. These funds have limits on how they can be used (e.g., not for purchase of a building) and are only available as direct grants to community-based organizations for a specific project. Similarly, Head Start programs, unlike most other government-supported child care programs, can use a portion of their federal funding for facilities maintenance and improvement. While both of these funding sources are limited to specific agencies, programs, and projects, building on this existing source of revenue can maximize a facilities fund's impact and focus resources on the most needy families in a community. These funding streams also provide an opportunity to coordinate the use of your funds with local government facility priorities.

Marketing Your Facilities Fund

Getting your program started successfully will require marketing your effort to prospective clients, funders, and policy makers. Public interest and awareness about the child care needs in your community, the benefits of child care development, and the challenge of building and renovating child care spaces will help create community support for your new program. Similarly, demonstrating demand for a new child care facilities program is crucial for securing funding and ensuring that your fund, once launched, will have some immediate successes. Listed below are some materials and strategies you may consider producing or undertaking in order to help launch and market your program:

- Distribute press releases to announce the creation of the fund, the first round of grants or loans, or to announce the availability of new funding.
- Submit articles or opinion/editorial pieces to local or community papers, discussing the need for and benefits of a child care facilities development strategy.
- Develop brochures or one-pagers that are geared toward specific audiences (e.g., funders, policy makers, or child care programs).
- Create a Web site that describes your new program and has links to other relevant sites.
- Design a logo to help identify and market your fund.
- Produce a glossy or annual report to describe your goals or highlight the successes of your new program.



What Can You Do?

MOST SUCCESSFUL CHILD CARE FACILITIES funds are created through partnerships with the public, private, and community sectors, each playing an important role in providing funding or other resources, technical assistance, policy development, leadership, organizational expertise or advocacy. For example, funding can come in the form of one-time help in starting a new fund, a long-term commitment to providing child care loans, or in-kind technical assistance. Public policies and laws can be initiated that specifically promote or encourage child care facilities development. Leadership can involve writing letters to legislators, speaking publicly about the need for child care, or hosting a fundraising event with corporate or community colleagues. Finally, each sector can also have a role in demonstrating community needs and advocating for new resources. In some cases, representatives from the various sectors have come together to create a single facilities strategy, fund, or program. In other cases, partners will align their resources or efforts to maximize and complement each other's efforts.

This section provides ideas and strategies for involving the public, private, and community sectors in starting a new child care facilities fund or promoting child care facilities development. It is by no means an exhaustive list but is intended to provide some concrete examples of what you can do to become involved in improving the supply and quality of child care facilities in your community.

State and Local Government

- Provide startup or matching funds to capitalize a new child care facilities fund.
- Provide financing for loan guarantees for child care loans from public or private sources.
- Issue bonds whose proceeds can be used for child care facilities development.
- Create a dedicated revenue stream for child care facilities development (e.g., assess a developer fee on commercial development to fund child care facilities development, set aside a portion of property or other tax revenues for child care facilities development).
- Investigate effective tax policies to encourage businesses to develop child care onsite or to contribute to child care facilities development.

- Establish new policies to require housing or community developments to include space for child care centers or family child care homes.
- Establish a city or state commission or committee dedicated to coordinating resources, planning, and developing new child care facilities.
- Conduct a community needs assessment to evaluate the current supply and demand for child care.

Banks and Commercial Lenders

- Make child care a priority for Community Reinvestment Act activities.
- Provide startup or matching funds to capitalize a new facilities fund program.
- Make short- or long-term capital—at favorable rates—available to child care programs.
- Host a workshop for local or regional banks on the benefits of child care lending and grant-making.
- Partner with a new child care facilities fund program to provide technical assistance on servicing loans.
- Meet with local or state elected officials to promote a child care facilities development agenda.
- Author an editorial in the newspaper about the benefits of child care facilities development.
- Offer expertise and time to an advisory body developing a new child care facilities fund.

Corporations

- Provide startup or matching funds to capitalize a new facilities fund program.
- Provide in-kind or pro bono legal, computer, management, business, accounting, or other needed support or technical assistance to a new child care facilities fund or directly to child care programs.
- Build an onsite child care center for employees and community members.
- Meet with local or state elected officials to promote a child care facilities development agenda.
- Author an editorial in the newspaper about the benefits of child care facilities development.

Community Lenders and Developers

- Develop a new child care lending program or dedicate specific staff to child care lending.
- Partner with a public or private funder and a child care provider to develop a new child care center.
- Partner with a public or private funder who is making a child care loan to provide technical assistance to the lender and the program.
- Provide business and other technical assistance directly to child care programs—either one-on-one or through workshops—to help them access and use debt financing.
- Volunteer to participate on a planning or advisory committee to develop a child care facilities fund.

Philanthropists and Foundations

- Provide startup or matching funds to capitalize a new child care facilities fund.
- Provide financing for loan guarantees for child care loans from public or private sources.
- Make a program-related investment (PRI) to a child care facilities fund.
- Develop a child care facilities grant-making program to complement the work of a child care facilities fund (e.g., provide funding for predevelopment planning or purchases that are too small to require debt financing).
- Host a roundtable of experts and administrators from other states and communities to educate policy makers and community members about starting and running a child care facilities fund.
- Host a meeting of local, regional, or state grantmakers about the benefits of child care facilities grant-making.
- Meet with local or state elected officials to promote a child care facilities development agenda.

Parents

- Survey parents in your child's school, child care center, after-school program, or community about their child care needs.
- Meet with local or state elected officials about your and the community's child care needs.
- Organize a lobby day at city hall or the state house to advocate for funding for child care facilities development.
- Volunteer to participate on a planning or advisory committee to develop a child care facilities fund.

Providers

- Survey parents in your child care center, after-school program, or community about their child care needs.
- Organize a meeting of child care center staff and family child care providers to document facilities challenges and needs.
- Develop a network of child care providers to share best practices about renovating and developing facilities.
- Meet with local or state elected officials about your child care program and the community's child care needs.
- Organize a lobby day at city hall or the state house to advocate for funding for child care facilities development.
- Volunteer to participate on a planning or advisory committee to develop a child care facilities fund.

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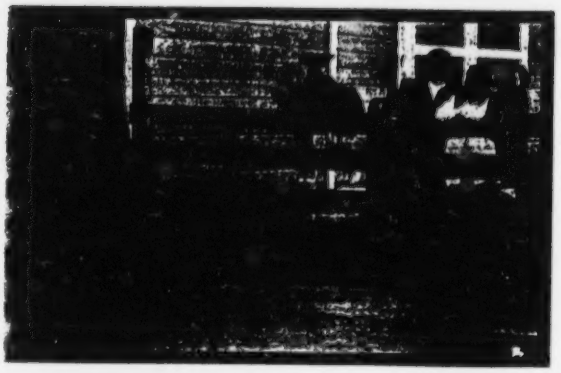
Advocates and Policy Organizations

- Research child care facilities fund "best practices" from other states and communities.
- Organize a meeting of child care center staff and family child care providers to document facilities challenges and needs.
- Meet with local or state elected officials to discuss child care facilities needs and challenges in your community.
- Organize a lobby day at city hall or the state house to advocate for funding for child care facilities development.
- Volunteer to participate on a planning or advisory committee to develop a child care facilities fund.



Resources

Publications

The Business Side of Child Care: A Reference Manual for Child Care Advocates and Lenders, The Center for Community Self-Help, September 1995, revised November 1997.

Child Care by Design: A Handbook for the Planning and Design of Child Care Centers in Massachusetts, Commonwealth of Massachusetts, Executive Office of Administration and Finance, Division of Capital Planning and Operations, May 1993, PLU-45.

Child Care Needs Assessment Methodology of the Illinois Facilities Fund, revised version, September 1998.

Financing Early Childhood Facilities: Investment Strategies for California's Low-Income Communities, developed for the California Task Force on Financing Early Childhood Facilities in Low-Income Communities by the National Economic Development and Law Center (NEDLC), January 1996.

The Future of Children: Financing Child Care, v.6 n.2, Center for the Future of Children, The David and Lucile Packard Foundation, Summer/Fall 1996.

Smith, Elizabeth, *Understanding Child Care Supply and Demand in the Community: A Child Care Supply and Demand Measurement Guide*, The Enterprise Foundation, Enterprise Child Care, 1999. (This document includes an online software tool on the methodology of supply/demand studies and is available at www.enterprisefoundation.org.)

Stokley, Jan, *The Child Care Challenge for Community Development Corporations*, National Economic Development and Law Center, 1990.

Stokley, Jan, and Emily Heumann, "Innovative Approaches to Financing Facilities," *Child Care Bulletin* 10, National Child Care Information Center, July/August 1996, (http://www.nccic.org/ccb/ccb-ja96/innovapp.html).

Stoney, Louise, and Ann Mitchell, *Financing Child Care in the United States: An Illustrative Catalog of Current Strategies*, The Ewing Marion Kauffman Foundation and the Pew Charitable Trusts, 1997.

Sussman, Carl, *Building for the Future: A Guide to Facilities Loan Funds for Community-based Child and Family Services*, The Finance Project, December, 1999.

National Programs and Organizations

Coalition of Community Development Financial Institutions
924 Cherry Street, 2nd Floor
Philadelphia, PA 19107-2411
Phone: (215) 923-5363
www.cdfi.org
The CDFI Coalition is a policy advocacy and trade association representing more than 350 CDFIs in 50 states. The Coalition has emerged as a primary source of information for the general public, the media, public officials, and private-sector leaders about CDFIs.

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Enterprise Child Care*
The Enterprise Foundation
410 S. Michigan, Suite 928
Chicago, IL 60605
Phone: (312) 341-1555
www.enterprisefoundation.org
Contact: Michele Piel
Using the term "child care program development," Enterprise is engaging both housing groups and child care groups; supporting community organizing efforts, recruitment, and training of providers; and focusing on comprehensive approaches.

The Finance Project
1000 Vermont, NW, Suite 600
Washington, DC 20005
Phone: (202) 628-4200
www.financeproject.org
To support decision making that produces and sustains good results for children, families, and communities, The Finance Project develops and disseminates information, knowledge, tools, and technical assistance for improved policies, programs, and financing strategies.

Community Investment
Collaborative for Kids (CICK)*
Local Initiative Support Corporation (LISC)
733 Third Avenue
New York, NY 10017
Phone: (212) 455-9840
agillman@liscnet.org
www.liscnet.org
Contact: Amy Gillman
LISC's Community Investment Collaborative for Kids (CICK) generates specialized capital resources and provides capacity-building training and project-specific technical assistance to help child care providers and other community-based organizations create high-quality spaces for children in low-income communities.

National Children's Facilities Network
The National Children's Facilities Network is an association of organizations that share information and work to advance the practice and feasibility of developing early childhood facilities serving low- and moderate-income families. The Network's members are nonprofit organizations engaged in lending or facilitating financing, real estate development services, technical assistance, policy analysis, and research and development.

National Community Capital Association*
924 Cherry St, 2nd Floor
Philadelphia, PA 19107-2411
Phone: (215) 923-4754
www.communitycapital.org
The National Community Capital Association is a national community development financial intermediary that represents 46 private, nonprofit community development financial institutions (CDFIs). Member CDFIs provide credit, capital, and technical assistance to support the revitalization of low-income communities. Many of the member CDFIs have or are developing child care lending programs.

National Economic Development and
Law Center (NEDLC)*
2201 Broadway, Suite 815
Oakland, CA 94612
Phone: (510) 251-2600
Contact: Maria Raff
NEDLC offers both workshops and individualized technical assistance in addition to training, research, advocacy, policy formulation, model project development, publishing, and legal services in the area of low-income community economic development.

*Organizations marked with an asterisk are members of the National Children's Facilities Network.

Selected Facilities Funds

Arkansas Child Care Facilities Guarantee Loan Fund
Division of Child Care and Early Childhood Education
101 East Capitol, Suite 106
Little Rock, Arkansas 72201
Phone: (501) 682-4891
Contact: Kathy Stegall
The Arkansas Child Care Facilities Guarantee Loan Fund is a statewide fund administered by the Arkansas Division of Child Care and Early Childhood Education, Department of Human Services. The Fund acts as a "credit bridge" for qualified applicants who are not able to secure a loan without a guarantee. Guarantees of 80% or up to $25,000 are issued to cover costs for startup, equipment purchase and improvement, and real estate purchase.

The Building Community Loan Fund
Vermont Community Loan Fund
P.O. Box 827
Montpelier, VT
Phone: (802) 223-1448
Fax: (802) 223-1455
www.vclf.org
vclf@vclf.org
Vermont Community Loan Fund (VCLF) is a private, statewide, nonprofit Community Development Financial Institution whose mission is to provide more equitable access to capital for Vermonters. The Building Community Loan Fund concentrates on nonprofit projects such as affordable housing, women's centers, child care centers, and other community facilities. Loans can be used for building purchase, renovation, or construction, or to bridge future sources of funding from grants and pledges.

Child Care Capital Investment Fund*
Community Economic Assistance Development Corporation
18 Tremont Street, Suite 1020
Boston, MA 02108
Phone: (617) 727-5944
Contact: Vicki Bock
www.cccif.org
The Child Care Capital Investment Fund provides technical assistance and flexibly structured financing to nonprofit child care centers trying to improve or expand their physical space in the Boston Metropolitan area.

Child Care Development Project*
Coastal Enterprises, Inc. (Maine)
P.O. Box 268
Wicasset, ME 04578
Phone: (207) 882-7552
Coastal Enterprises is a private, nonprofit community development corporation working to increase the supply of high-quality, affordable child care and the economic self-sufficiency of providers in Maine. CEI makes loans to both family- and center-based child care providers serving low-income children, particularly in rural areas.

ChildCare Works
Center for Policy Alternatives
1875 Connecticut Avenue, NW Suite 710
Washington, DC 20009
Phone: (202) 387-6030
www.cfpa.org
ARCH Development Corporation
1227 Good Hope Road, SE
Washington, DC 20020
Phone: (202) 889-5000
ChildCare Works is a public-private partnership that provides training, help with licensing, and small loans. Business training and loans of up to $1,500 are provided through ARCH Development Corporation to existing and potential child care providers. The Washington Child Development Council provides assistance with licensing.

Child Day Care Financing Program
Virginia Small Business Financing Authority (VSBFA)
901 E. Byrd Street, Suite 1800
P.O. Box 798
Richmond, VA 23218
Phone: (804) 371-8254
Contact: Karen Aylward
VSBFA was created in 1984 by the Virginia General Assembly to administer financing programs that enable small businesses in Virginia to access the capital they need to grow and expand. The Child Day Care Financing Program was initiated in 1993 to provide loans to Virginia's child care providers to finance quality enhancements or projects to meet or maintain child care requirements, including health, safety, or fire codes.

Child Care & Early Education Facility Loan Program*
First Children's Finance Development Corporation for Children
212 Third Avenue North
Suite 310
Minneapolis, MN 55401
Phone: (612) 338-3023
First Children's Finance provides loans and technical assistance for child care and early childhood education facility expansion and renovation, program relocation, equipment, and startup.

Child Care Facility Development Program*
Illinois Facilities Fund (IFF)
300 W. Adams Street, Suite 431
Chicago, Illinois 60606
Phone: (312) 629-0060
hn2467@handsnet.org
Contact: Trinita Logue
The IFF is a statewide, nonprofit facilities lending intermediary created by a partnership between the state and the philanthropic community. In 1992 the state legislature dedicated $13 million for IFF to borrow funds through a tax exempt bond program to construct five and renovate two child care centers. The bonds, purchased by private investors, were secured by funds from IFF with debt service reserve and commitment from the Illinois Department of Children and Family Services to repay the debt over 10 years.

Child Care Facilities Fund (CCFF)*
Low-Income Housing Fund
1330 Broadway, Suite 600
Oakland, CA 94612
Phone: (510) 893-3811
sjarrett@lihf.org
Contact: September Jarrett
The CCFF is a public-private partnership that provides low- and no-cost financing and technical assistance to family-based and center-based child care providers. The CCFF is administered by the Low Income Housing Fund, a national nonprofit community development financial institution (CDFI) based in San Francisco.

Community Facilities Loans and Grants
Rural Housing Service
United States Department of Agriculture
Community Programs Division
1400 Independence Ave, SW
Washington, DC 20250-32222
Phone: (202) 720-1490
www.rurdev.usda.gov
Loans, loan guarantees, and grants are available for the development of rural community facilities in areas with population up to 20,000. Funds may be used to construct, enlarge, or improve community facilities for health care, public safety, and public services (including child care). This can include costs to acquire land for a facility, pay professional fees, or purchase operating equipment.

Day Care Financing Programs
Maryland Department of Business and Economic Development
217 East Redwood, Suite 2246
Baltimore, MD 21202
Phone: (410) 767-6345
Contact: Joan Case
Maryland has established a state loan guarantee program, through which state funds are appropriated, invested, and available to repay a commercial loan made to a child care business if a default occurs. State general funds also support two revolving-loan funds that are administered by the state and can supplement private loans or grants.

The Finance Fund*
Ohio Community Development Finance Fund
42 East Gay Street, Suite 1000
Columbus, OH 43215
Phone: (800) 959-2333
Phone: (614) 221-1114
info@financefund.org
www.financefund.org
Contact: Jim Klein
Ohio appropriates state general funds for child care lending that are administered by a private sector community development corporation (CDC). The Ohio Community Development Fund uses many strategies, including "linked deposits" to encourage private banks to make loans to Head Start and child care programs. Child care facility products include:

- **The Head Start Facilities Planning Grant:** *grants money enabling the predevelopment and planning process for nonprofit Head Start agencies.*
- **The Child Care Facilities Planning Grant:** *grants money enabling the predevelopment and planning process for nonprofit child care agencies.*
- **The Child Care Capital Fund:** *provides resources to Head Start agencies for capital improvement projects, using the linked deposit model.*

Minnesota Bonding Program
Department of Economic Security
390 North Robert Street, 1st Floor
St. Paul, MN 55101
Phone: (612) 297-7850
Contact: Elizabeth Roe
eroe@des.state.mn.us
Minnesota has used proceeds from the issuance of general obligation bonds to help pay for Head Start and other early childhood learning facilities. Grants of up to $200,000 are awarded to school districts or cities to support the cost of constructing or renovating early childhood facilities.

National Cooperative Bank Development Corporation*
1401 Eye Street, NW, Suite 700
Washington, DC 20005
Phone: (202) 336-7729
Fax: (202) 336-7804
Contact: Kerinne McNicholas
kmcnicho@ncb.com
www.ncb.com
National Cooperative Bank Development Corporation (NCBDC) provides financing to professionally managed startup and existing child care and Head Start facilities that are controlled by the users, be they corporate sponsors, parents, or communities. NCBDC has been one of the few financial institutions to provide financing for Head Start grantees seeking to take advantage of a new rule, enacted in 1992, enabling them to purchase facilities.

New Hampshire Community Loan Fund*
7 Wall Street
Concord, NH 03301
Phone: (603) 224-6669
Fax: (603) 225-7425
geninfo@nhclf.org
The New Hampshire Community Loan Fund (NHCLF) provides a variety of financing for community initiatives, including essential community services such as child care. In 15 years of operation, the NHCLF has helped fund 850 child care spaces.

New Jersey Community Loan Fund*
One W. State Street
P.O. Box 1655
Trenton, NJ 08607
Phone: (609) 989-7766
The New Jersey Community Loan Fund (NJCLF) is a nonprofit community development loan fund serving low-income people throughout New Jersey. NJCLF's mission is to increase the flow of capital into viable, well-designed economic development activities that will help build economic self-sufficiency for low-income, low-wealth people and economic strength for lower-income communities. Child care loan programs include "Jump Start for Child Care," which provides predevelopment loans for the early stages of renovation, construction, and acquisition of physical facilities that will be used for child care centers.

Nonprofit Finance Fund*
National Alliances Program
70 West 36th Street, Eleventh Floor
New York, NY 10018
Phone: (212) 868-6710
www.nonprofitfinancefund.org
The Nonprofit Finance Fund helps nonprofit organizations undertake facilities projects in Boston, Chicago, New Jersey, New York, Philadelphia, San Francisco. NFF provides national advisory services, planning grants, and capital loans.

North Carolina Community Facilities Fund*
Center for Community Self-Help
P.O. Box 3619
Durham, NC 27702-3619
Phone: (919) 956-4430
laura@Self-Help.org
Contact: Laura Benedict
The Center for Community Self-Help is a statewide community development financial institution (CDFI) that developed a formal child care lending program in 1993. Self-Help makes short- and long-term (up to 20 years) loans to early childhood programs throughout the state. The child care program is supported with funds from a variety of public and private sources.

The Reinvestment Fund
(formerly the Delaware Valley Community Reinvestment Fund)
718 Arch Street
Suite 300 North
Philadelphia, PA 19106
Phone: (215) 925-1130 x257
Contact: Sara Vernon-Sterman
The Reinvestment Fund (TRF) is a non-profit organization serving the metropolitan Philadelphia area. Its mission is to provide capital and technical expertise to revitalize low- and moderate-income neighborhoods and alleviate poverty. TRF's loan fund supports all aspects of neighborhood revitalization, including child care. Loan terms and structure are designed to help borrowers achieve their project goals while still protecting the interests of TRF's investors.

Tennessee Child Care Facilities Corporation
3rd Floor, Citizens Plaza Building
400 Deaderick Street
Nashville, TN 37248-90005
Phone: (615) 313-5789 or (888) 413-CCFC
Contact: John Garnett, Director
The Tennessee Child Care Facilities Corporation was established in 1989 by the Tennessee General Assembly. The Corporation is a quasi-state, nonprofit financial agency designed to assist in the enhancement, expansion, and creation of child care facilities through a loan guarantee, a direct loan, or corporate-community partnership grant. Loans are available for up to $25,000.

Other Child Care Resources

Child Care Action Campaign:
www.usakids.org/site/ccac

Children's Defense Fund (CDF):
www.childrensdefense.org

Corporation for Enterprise Development:
www.cfed.org

National Child Care Information Center:
www.nccic.org

Glossary of Child Care and Facilities Financing Terms[1]

Bankable
Ã bankable loan is one that qualifies for traditional lending methods.

Capitalize
To supply with capital or funding.

CDFI
See "Community Development Financial Institution."

Child Care
Full range of services used by families to educate and nurture their children, including services that allow parents to work or go to school. Can also be known as early care and education or school-age child care.[2]

Child Care Center
Center-based providers can be nonprofit or for-profit, operate single or multiple child care sites, and provide only child care or a range of services for families in the community. Child care centers are generally licensed and must adhere to strict square-footage, child/staff ratio and other requirements.

Child Care Home
See "Family Child Care."

Collateral
A lender's legally enforceable claim to take and sell assets pledged by a borrower to protect the lender against financial loss in the event the borrower defaults on the loan.

Community Development Corporation (CDC)
Community Development Corporations are nonprofit community-based organizations working to revitalize the economic and social base of low-income urban and rural communities across the United States. CDCs typically have a specific geographic focus and are engaged in a wide range of development activities, including housing, commercial, human resource, and child care.[3]

Community Development Financial Institution (CDFI)
A community development financial institution (CDFI) is a financial intermediary that has community development as its primary mission and that develops a range of programs and methods to meet the needs of low-income communities. CDFIs make loans that generally are unbankable by conventional industry standards. CDFIs provide comprehensive credit, investment, banking, and development services. Some CDFIs are chartered as banks, some as credit unions, and many as self-regulating nonprofit institutions that gather private capital from a range of investors for community development or lending. The passage of the Community Development Banking and Financial Institutions Act in 1994 created a source of federal funding to capitalize community development financial institutions.

Community Reinvestment Act (CRA)
The Community Reinvestment Act is a federal statute that since 1977 has outlawed redlining, the practice of restricting credit to low-income or minority neighborhoods within a bank's business area. Under the CRA, banks are required to invest in the communities where they are chartered. Traditionally this obligation has been fulfilled with investments in housing; however, in 1996 the regulations were broadened to encourage investments in other community supports, including child care.

CRA
See "Community Reinvestment Act."

Creditworthiness

Creditworthiness is the lender's assessment of a borrower's qualifications for a loan, based on credit history, net worth, collateral, and other factors bearing on the ability to repay a loan.

Debt Service

The debt service is the amount of principal and interest that a borrower pays to the lender. A monthly mortgage payment, for example, is debt service—part principal repayment and part interest. The monthly mortgage may also include an escrow payment for taxes and insurance. While the lender may collect and later make tax and insurance payments for its borrowers, only principal and interest payments are considered to be debt service.

Equity

In a real estate transaction, equity is the cash (or cash equivalent) invested by the owner. The balance of the funds to complete the transaction comes in the form of borrowed money (also called debt). The more equity available, the less the owner has to borrow and the lower the risk to the lender.

Family Child Care (Child Care Home)

Family child care can be licensed or unlicensed, depending on the locality and the number or age of children served. Generally, family child care providers are licensed and care for between 2 and 14 children in their home.

Forgivable Loans

Forgivable loans are made with the understanding that if the borrower meets certain requirements, repayment of the loan will not be required.

General Obligation Bonds

A government entity sells general obligation bonds to raise funds for capital expenditures. It then allocates a portion of its annual revenue to pay toward the debt each year. General obligation bonds are repaid from the tax base of the governmental body issuing the bonds. Minnesota has used general obligation bonds to help pay for Head Start and other early childhood learning facilities (for more information, see Resources section).[4]

Guarantor

One who agrees to repay the lender all or part of the principal and interest on behalf of a borrower in the event that the borrower fails to make these payments as required by the loan agreement.

Head Start

Head Start is a national comprehensive program that combines early education with health, nutrition, and social services; parent involvement; and school readiness. Head Start is primarily a part-day, part-year (no summer) program that provides services to 3-and 4-year olds whose family income is at or below the federal poverty level.

Informal or Unlicensed Child Care

Informal care refers to care by a relative, friend, or neighbor. Informal care can take place in a child's home or in the home of the care-giver. Informal care can be paid or unpaid. Informal care often takes place outside of general state licensing and regulation procedures.

Interest Rate Write-down

An interest rate write-down acts as a subsidy to reduce the interest rate on a commercial loan to below market rates. For example, an interest rate write-down might reduce an interest rate from 6.69 percent to 3.5 percent, which would make the loan more affordable to a child care program.

Leasehold Improvements

Leasehold improvements are renovations to a leased property.

Linked Deposits

Linked deposits involve depositing funds into a conventional lending institution for the purpose of encouraging the bank to loan funds at a reduced rate to specific borrowers. This strategy can be used to lower the cost of short-term construction loans made to nonprofit entities, including child care programs.[5]

Loan Origination

The process of making and documenting a loan, including preparing and executing loan documents (the loan agreement, promissory note, security agreements, etc.), recording the documents at a public registry, and disbursing funds to the borrower.

Loan Servicing

The administration of the loan after closing, including making disbursements, collecting payments, monitoring the performance of the loan and the security, keeping the documents, and discharging the promissory note and any liens once the borrower has satisfied all obligations to the lender.

Program Related Investments (PRIs)

Program Related Investments are zero- or low-interest investments or loans, made by organizations or individuals, that are used as capital and re-loaned to community-based enterprises such as child care organizations.[5]

Recoverable Grants

Recoverable grants are given with the understanding that if certain requirements are not met, the borrower will be required to repay the grant. See also "Forgivable Loans."

Revolving Loan Fund

Revolving loan funds use incoming debt repayments to make new loans. Most loan funds operate in this manner.

Soft Costs

While "hard costs" are the "bricks and mortar construction costs" of developing a facility, soft costs refer to a broad category of professional services, premiums, and fees to cover building and other permits, architectural services, developer overhead, and insurance.

Tax Exempt Bonds

Under federal law, most state and local bonds are tax exempt. Purchasers of tax exempt bonds do not pay taxes on the earnings of the bond. This raises the effective interest rate of the bond.

Tenant Build-outs (or Tenant Improvements)

Improvements made to a commercial space to customize it for the tenant's use prior to occupancy. In some cases, the landlord will make and finance these improvements as part of the rental agreement. Bringing the structure up to current building codes and most mechanical system improvements are generally the landlord's responsibility. Other types of tenant build-outs (such as adding enough bathrooms to accommodate child care licensing requirements) are generally the tenant's responsibility.

Transaction Costs

All financial transactions cost money. For a lender, transaction costs include the costs of underwriting a loan—analysis of a borrower's financial condition, credit history research—legal fees to document and close a loan, overhead, and loan monitoring and servicing expenses after the loan is closed. To be worthwhile from the lender's perspective, the loan interest must be sufficient to cover these transaction costs, the cost the bank pays on the money it re-lends to its borrowers, and the bank's profit.

Unbankable

An unbankable loan is one that does not qualify for traditional lending methods. For example, a loan to a child care center may be considered unbankable because there is a lack of credit history or collateral.

Underwriting

The credit analysis performed by a lender to determine whether to make a loan and how to structure it.

Useful Life

The length of time an asset can be productively used before wearing out and presumably losing its economic value.

Working Capital

The financial resources required to meet immediate obligations in anticipation of earned income. In other words, funds used during the length of time required to convert services (which involve a cash outlay) into cash payments for those services. Human service organizations often require working capital in order to pay staff on a biweekly basis, in anticipation of public sector contract reimbursement payments that arrive a month or more after services are delivered and payrolls are met.

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1. Many of these definitions can also be found in Carl Sussman, *Building for the Future: A Guide to Facilities Loan Funds for Community-based Child and Family Services*, The Finance Project, December, 1999, Glossary. Sources are provided for some additional terms so that the reader can refer to them for further information.

2. Louise Stoney, and Anne Mitchell, *Financing Child Care in the United States: An Illustrative Catalogue of Current Strategies*, The Ewing Marion Kauffman Foundation and the Pew Charitable Trusts, 1997, p. 99.

3. Jan Stokley, *The Child Care Challenge for Community Development Corporations*, National Economic Development Law Center (NEDLC), 1990, p. 8.

4. Stoney and Mitchell, p. 99.

5. Ibid, p. 110.

6. Ibid, p. 108.

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Starting Points

This toolkit was created as part of **Carnegie Corporation of New York's Starting Points State and Community Partnerships for Young Children**. Starting Points was established to plan and implement the reforms described in the Corporation's task force report, *Starting Points: Meeting the Needs of Our Youngest Children*. The four goals of the initiative are promoting responsible parenthood, ensuring high quality child care, providing children with good health and protection, and mobilizing the public to support young children and families. Starting Points sites are Baltimore, Boston, Pittsburgh, San Francisco, Colorado, Florida, Hawaii, North Carolina, Rhode Island, Vermont and West Virginia. National partners include The Finance Project **(www.financeproject.org)**, Columbia University School of Public Health **(www.columbia.edu)**, the National Center for Children in Poverty **(www.nccp.org)**, and the Families and Work Institute **(www.familiesandwork.org)**. More information about Carnegie Corporation can be found at www.carnegie.org.

The Finance Project

The Finance Project is a non-profit policy research, technical assistance and information organization that was created to help improve outcomes for children, families and communities nationwide. Its mission is to support decisionmaking that produces and sustains good results for children, families and communities by developing and disseminating information, knowledge, tools and technical assistance for improved policies, programs and financing strategies. Since its inception in 1994, The Finance Project has become an unparalleled resource on issues and strategies related to the financing of education and other supports and services for children, families and community development. For more information, visit TFP's website at **www.financeproject.org**.

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